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related to trade balances or international debts. Our Civil War greenbacks went up or down in value in accordance with the fortunes of the Union armies, and later with relation to policies under discussion in Congress. The depreciation of some European currencies has undoubtedly been increased by the instability of some governments or by socialistic policies. Confidence, as Secretary Hughes has well said, must precede credit. Given good government and balanced budgets, something could doubtless be done in the direction of stabilizing exchanges between countries having an irredeemable paper currency and countries on a gold basis. It would probably be in the nature of recognition for fixed periods, or in some cases permanently, of new parrs around which fluctuations could be controlled within something approaching normal limits.

No outside or international attempts at "stabilization," however, could perform miracles or take the place of the necessary internal conditions and efforts in each country. Stabilization of exchanges between the United States and the neutral countries, whose currencies are not greatly depreciated, such as Holland and the Scandinavian countries, seems within reach on the former gold par bases, and foreign trade would doubtless be benefited by such control of fluctuation as might be instituted in other cases, but so long as our own currency is sound and our prices attractive and so long as the pound sterling continues to maintain itself at a point so near par, with francs and lire showing progress, it can hardly be said that the continuance or recovery of our foreign trade are really dependent upon any such stabilizing measures.

America and the Debts of Europe

BY JOHN F. SINCLAIR

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IN the tragic years from 1914 to 1921 inclusive, four great changes occurred in American finance as follows:

1. American exports exceeded imports by more than twenty billions of dollars.

2. Forty per cent of the gold coin of the world lodged itself in America's strong box.

3. America changed from a great debtor to the greatest of creditor nations.

4. America broke her century-old tradition of national isolation, sent two millions of men three thousand miles across the sea and spent fifty billions of dollars doing it.

Now, in addition to between three

and four billions of dollars owing to corporations and individuals in America, eighteen countries of Europe owe to the Treasury of the United States, the stupendous sum of more than eleven billions of dollars—eleven thousand millions.

The countries owing and the amounts, as of April 1, 1922, are given in the table on page 86.

These amounts are so large, so vast and so difficult to grasp that they cannot possibly mean anything concrete to any of us except perhaps by way of contrast or comparison.

For this vast sum, a high school costing one million dollars could be built in every one of the three thou-

COUNTRIES OWING AND DEBTS OWED UNITED STATES TREASURY, APRIL 1, 1922

Country	Square Miles	Population	Standing Army	Debt owing to United States			Gold Reserve
				Principal	Interest	Total	
Armenia.....	80,000	7,000,000	18,000	\$11,939,917	\$1,177,548	\$13,137,465	
Austria.....	31,000	6,139,000	30,000	24,055,917	1,443,343	25,489,260	\$1,744,000
Belgium.....	11,400	7,600,000	105,000	377,564,298	42,699,898	420,263,396	51,428,000
Czechoslovakia.....	56,300	14,000,000	150,000	91,169,834	11,158,765	102,328,599	6,104,000
Estonia.....	23,000	8,000,000	15,000	13,999,145	1,695,002	15,694,147	
Finland.....	125,689	3,300,000	37,000	8,281,926	.723,156	9,005,082	15,125,000
France.....	212,659	36,700,000	818,000	3,339,104,000	357,917,937	3,717,021,937	668,517,000
Great Britain.....	121,331	46,000,000	300,000	4,166,318,000	509,173,742	4,675,491,742	804,232,000
Greece.....	41,933	5,000,000	200,000	15,000,000		15,000,000	
Hungary.....	35,164	7,841,000	27,000	1,885,835	151,725	1,887,560	7,000,000
Italy.....	120,000	40,000,000	250,000	1,684,034,050	202,279,732	1,886,313,782	204,348,000
Latvia.....	25,000	1,504,000		5,132,287	440,009	5,572,296	2,900,000
Liberia.....	40,000	2,000,000		26,009	2,218	28,227	
Lithuania.....	23,500	2,000,000	50,000	4,981,628	498,162	5,479,790	5,000
Poland.....	149,000	24,000,000	600,000	135,620,583	12,692,474	148,313,057	2,958,000
Roumania.....	122,000	17,400,000	160,000	36,128,494	4,380,746	40,509,240	339,000
Russia.....	8,430,000	136,000,000	600,000	192,601,297	30,558,954	223,160,251	300,000,000
Serbia.....	95,600	11,400,000	200,000	51,153,160	6,057,626	57,210,786	12,386,001
Total	375,884,000	3,560,000	\$10,178,816,380	\$1,183,050,837	\$11,361,867,217	\$1,876,446,001	

sand counties of the United States, every irrigation project in America now held up for lack of funds could be completed, one hundred fifty thousand homes, costing \$3,000 each, could be built and paid for—and still the unthinkable sum of two billion five hundred millions would be returned to the Treasury of the United States.

This sum of eleven billions of dollars is equal to two-thirds of the total debts of all Europe in 1913. It is more than were the combined national debts in 1913 of Belgium, Germany, Greece, Hungary, Italy, Japan, Netherlands, Roumania, Serbia, Norway, Sweden, Switzerland and Turkey. It is more than were the combined debts of Russia, France and Great Britain in the same year.

This European debt to America would more than equal the total assessed valuation in 1921 of the real estate in Connecticut, Maine, New York, Rhode Island, Vermont, Maryland, Minnesota, Iowa, North Dakota, South Dakota and Nebraska, and there would still be \$400,000,000 left over for good measure.

This vast sum of eleven billions is equal to \$100 for every man, woman and child in the United States.

Perhaps we can better understand by example what the interest at five per cent alone on this vast sum means.

The forty largest cities in America in 1921 had a school attendance of 2,788,861 pupils. The total cost of these schools, including salaries, interest on bonds, operation and maintenance, was \$161,270,884—or interest charges for one-hundred and twenty-two days on the amounts these eighteen nations owe us. Again, the University of Pennsylvania is a very rich university with an endowment of nearly thirty millions. Each year the interest items on the European debt to us would endow twenty more state

universities with equal amounts. The physical plant of the University of Michigan costs \$8,000,000. For the interest for one year on this vast sum owing to us, such a plant and equipment could be constructed in every one of our forty-nine states and in addition a hospital could be built in every one of the one-hundred largest cities in America, costing an average of \$1,000,000 each, and still fifty millions of dollars could be turned back into the Treasury of the United States.

Such figures, then, represent the European bookkeeping debt to the United States. The people of the United States are thus faced with one of the most tremendous economical and financial problems ever given them to meet since they became a nation. What are we going to do about these debts?

I wish to discuss this question of "America and the debts of Europe," from three points of view as follows:

1. From the standpoint of those who demand that these debts be paid to America dollar for dollar.

2. From the standpoint of those who think that these debts should be cancelled entirely.

3. From the standpoint of those who think that these foreign debts should neither be paid as other debts are paid, nor cancelled altogether.

WHAT THE "PAY-UP" POLICY MEANS

There are many Americans, careful and sincere, who insist that America be paid, dollar for dollar, the principal and interest of the debts now owed by these eighteen European nations. These people insist that a contract entered into by a nation is sacred; that we loaned this money to these nations with the express understanding that it was to be repaid. No nation has suggested otherwise. They are debts of honor and there must be no quibbling as to the basic fact of the

obligations themselves. The money was raised under great pressure and by tremendous effort, and the people contributing to the American Liberty Loan drives were told that the money being loaned to the Allies would be paid back and that taxes, therefore, would not be raised to take care of that part loaned to the Allies; our European debtors would take care of their obligations. These facts were clearly understood by everyone and, as Mr. Frank Vanderlip says, these debts, "were unequivocal obligations to repay."

This is the opinion of those who demand full repayment of the debts of Europe to the United States. Let us therefore analyze the position of those who thus believe that Europe should pay us dollar for dollar.

The average man believes that if the European governments pay these debts to the United States, the burden of his taxes will be reduced. The United States has a bonded debt of approximately \$25,000,000,000, of which about \$11,000,000,000, as stated above, represents loans to European governments. The government of the United States may or may not receive interest on its European debts but it must pay interest on its own obligations. Therefore is it not true that, if the European nations pay us what is due, taxes would be reduced by the total amount of the payments? Can we not figure eventually on liquidating eleven billions of Liberty Bonds by receiving an equal amount from our European debtors? It looks to the average man like a very simple question of adding and subtracting figures. It would at first seem so, but is it so simple?

If one nation owes to another nation \$100,000,000, the debtor nation can balance its account either by sending to the creditor nation \$100,000,000 in

gold, if she has it, or by sending an equal amount of goods or services for which the debtor nation receives credit on the national books. There are no other ways known to square amounts and keep the books in balance. If we insist on payment we may then ask, can Europe pay us in gold?

IMPRATICABILITY OF PAYMENT IN GOLD

In the figures given in the table on page 86 the total gold reserves of the eighteen European countries owing us, amount to less than 16 per cent of their debts to us. In other words, if Europe settled her debts to us in gold, she could pay only sixteen cents for every dollar owing. If these eighteen European nations could secure all the gold coined in the entire world, outside of what is now within the United States, they could pay us less than fifty cents on the dollar, on these debts. If these eighteen European nations secured all the gold coined since Columbus discovered America in 1492, and not now held within the United States, they could not pay us in full.

No, the shipment of more gold to America to pay these debts is neither practical nor workable. We need therefore not take the time to discuss the effect which more gold import into the United States would have on our decreasing trade. A nation's foreign obligations must be met in lieu of gold by either goods or services. The War caused Europe to lose nearly all its "service" charges, such invisible service charges as tourist credits, freight credits, foreign bond interest credits and remittance from abroad credits. So Europe is forced to make up her favorable trade balance to us by selling to us more goods than we sell to her.

The best financial students of this problem agree that it would require an excess over imports between these

European debtors and the United States of about seven hundred million dollars annually to meet the interest charges alone on their obligations and if we may assume that the debt which now amounts to approximately fourteen billion dollars—including total obligations to the United States government and others due to citizens in the United States—is to be paid off in forty years, another three hundred million dollars of additional imports would be required for the sinking fund or a total of one billion dollars. In other words, the United States would be required in squaring only this European debt situation to us to take one billion dollars per annum in European imports in excess of our exports.

Europe's hope of establishing economic equilibrium is to secure by excess of exports over imports surplus bills of exchange on the United States, which can be used in squaring her present unfavorable balance, adding this billion annually as well, for let us understand that this extra amount has not been included in the trade balance calculations, except, perhaps, in its psychological effect.

Let us be very clear about this matter. These debts were created in the first instance by America's selling goods to Europe. They can be paid only in the same manner—by our European debtors' selling as much to us as we have sold to her. In other words, national accounts must be balanced the same as individual accounts. If we compel Europe to use her export of goods to square accounts on obligations now owing to us, we must understand that she cannot, in the very nature of things, use those exports over again in buying present and future goods from us. We cannot eat Europe's cake and have it too. Look at the figures showing America's dwindling trade during the past twelve

months—a drop in exports from \$8,080,000,000 to \$4,379,000,000. Add to that, Europe's small present purchasing power, growing smaller every month, owing to the present unfavorable trade balance, and one cannot but feel that the situation is a most critical one. Perhaps we too can force the issue as the Allies have in the case of the impossible reparations, but the results in demoralized exchanges throughout all Europe will be similar to that which occurred to the German mark after the first reparation payment was made in gold by Germany, when the German mark dropped in ninety days from 100 to 210 marks for a dollar.

MENACE TO AMERICA'S EXPORT TRADE

If America compels Europe to settle for these past debts in the face of her present difficult unfavorable balance of trade as the "pay-up" advocates demand, naturally America's export trade will dwindle almost to zero. If we insist on payment, it will not be consistent or logical to set about erecting high tariff walls to protect ourselves from such an influx of goods, for it will only be by admitting such goods that Europe has any hope of repaying. We must admit the goods and accept the consequences.

The decreased purchasing power of Europe from 1919 to 1921 inclusive has a very vital relationship to the present agricultural depression in America. For instance, in 1919 Europe purchased 332,000,000 pounds of beef from the United States but only 21,000,000 in 1921—about one fifteenth as much. Europe purchased 1,238,000,000 pounds of bacon in 1919 but only 489,000,000 in 1921—about one-third as much. What happened? The American live stock industry became demoralized and the value of

her live stock, approximately the same number of head, dropped from \$8,800,000,000 in 1919 to \$6,200,000,000 in 1921—a loss to the live stock industry of America of about \$75,000,000 for each month of the entire thirty-six months—a total loss of \$2,600,000,000 to the live stock industry in America alone.

Again, let us take the case of the small-grain farmer, he who raises wheat, oats, barley, rye and flax. Based on the official government figures for 1921, a drop of one cent in the price secured for our foreign small grain surplus, would mean a loss of \$4,300,000 in Europe but a loss in America of \$42,569,000, for the drop of one cent abroad drops also the price paid in America. Although the American small-grain farmer sends abroad only about one tenth of his total crop, the price of grain in America is determined by the price paid in the world market. A ten cent drop abroad in all cereal prices in 1922 by reason of the further dwindling of European purchasing power, would result in a loss of \$425,000,000 to the American small-grain farmers.

I want to make this point especially clear. Under such a financial sinking, neither Europe nor America is being helped, for, while to America the loss is heavy and impressive, still to Europe the loss, based on American prices, is even more disastrous—for her purchasing power is contracting faster than the American values are dropping. We are not discussing losses in Europe at this point other than financial losses. Those losses now taking place by reason of the lower standards of living, starvation, sufferings, diseases and famine are not calculated. From these America has not seriously suffered but, financially speaking, it is a situation where both creditor and debtor nation suffer from

the same malady but not to the same degree.

We have already shown that the losses to American live stock during the past three years have been more than two and one-half billions of dollars and we have shown that the drop of ten cents in Europe in the price of small-grain surplus would mean nearly a half billion dollars a year to American small-grain farmers. The inference is therefore clear that, if a policy undertaken by the United States results in further decreasing the purchasing power of Europe in such a way that our national income shrinks more than the amount of interest received by us, say, seven hundred million dollars a year, the nation as a whole would lose more than it gained by undertaking such a policy. What advantage is gained if taxes are cut seven hundred million dollars and the national income paying such taxes is reduced by more than seven hundred millions.

In other words, if the present American depression, which has resulted in widespread unemployment and enormous goods-value losses has been caused in a great measure by these two factors of Europe's fast decreasing purchasing power and, from Europe's standpoint, America's fast increasing prices, how much more serious would the problem be in increasing still further goods-value losses by adding this further mountain of debt of from five hundred to one thousand million a year, to be paid, as we have already shown, in the only way Europe can pay—by goods?

It is not contended that certain classes would not be benefited by this "pay-up" policy. People on salaries and fixed incomes, who have steady work and who are little affected by financial depressions, would probably have tax relief by the payment of

European debts. But to manufacturers, farmers, and business and working men, increased unemployment and goods-value losses would be enormous. These great classes of our population, by far the largest percentage, would have their taxes reduced, but their incomes would be immeasurably more reduced.

We are therefore forced to the conclusion that to insist on payment of these debts owed to the United States Treasury by these eighteen European countries would be a financial mistake and a strategic calamity. To force these European countries to pay dollar for dollar what they owe to us, would, in my opinion, not only accelerate the present tendencies towards economic disintegration in Europe but would likewise be the cause of a vast injury to America and her people.

THE PROBLEM OF CANCELLATION

Let us turn now to the point of view of those of us who favor the cancellation of all of our European debts at one grand stroke. If these debts, for reasons stated above, should not be collected even if our European debtors were willing and able to pay, why should they not be cancelled altogether. This is our next problem.

The internal debts of Europe, according to the figures compiled by the International Finance Conference held in Brussels in June, 1920, increased from 17 to 157 billions of dollars, an increase of nearly nine hundred per cent. The external debts, that is those owing to one nation by another, increased from practically nothing to more than 25 billions.

From the standpoint of international affairs there is a vast difference between internal and external debts. A government within its own borders is master and supreme. The internal debts may reach unthinkable sums in

the aggregate but, so long as the government has power to issue more paper money from a printing press, it can, without apparent embarrassment, continue to pay interest and pay off or refund principal obligations. Economists and international financiers have given, in my opinion, all too little study to this subject of internal debts, especially as to their effect on unbalanced budgets which result in demoralized and disorganized trade. Inflation, the printing of unlimited paper money to meet expenses not met out of taxation, is a malignant growth, dangerous, treacherous and fatal to any society or any government using it. It destroys the lives, the liberties and the property of peoples and it always works the same way. Its law is immutable. It is Europe's most terrible scourge today. Listen to what Professor Cassel of Sweden has to say on this subject:

What a prolonged inflation means, should at this moment be clear to everybody. It means a progressive falling to pieces of all organized economic life and of the moral forces which are its foundation—actual starvation for large classes of the population, growing social unrest and ultimately the complete catastrophe when the food producers altogether refuse to take the depreciated money paper in exchange for their products. If anybody still believes this forecast to be the exaggeration of a pessimist, he has only to lay before himself the map of Europe: all the successive stages of the inflation are there represented simultaneously; England, Italy, Germany, Austria and Russia, showing some typical milestones on the downward road to the ultimate catastrophe. No country that is gliding on this slope can feel itself safe from unexpected consequences, nor can Europe as a whole regain security and strength as long as any important part of it is involved in this most pernicious process.

These words, quoted from one of Europe's great students, are full of

warning and wisdom to every nation in Europe. A capital levy on the property of all citizens to square the national accounts is a vastly wiser policy. Paying interest on internal debts of over 157 billions at the rate of 5 per cent per annum—or \$650,000,000 a month—by using the printing press and increasing inflation still more, has become not merely a local internal national problem but an international one and as such should be studied.

But in our study we are particularly concerned with external debts, for Europe's debts to us are all of that character. Internal debts can be paid for by printing press methods but not so external debts. Such debts, as stated before, can only be paid by the debtor country with gold, which Europe lacks, or by an enormous excess of exports over imports.

CLAIMS FOR CANCELLATION

Those Americans who champion the cancellation of European debts to us, do so because, in the first place, they maintain the Allies were engaged in a war in which from the beginning America had a common interest. It was vitally important that the war be won. The European countries were borrowing money in this country to purchase large war supplies here and had been doing so long before we entered the War. Billions of dollars worth of goods were sold to them. We had made large profits and had sustained, after we entered the War, no great relative human loss or material injury. America had come out of the War the richest and most powerful financial nation on earth, while Europe had emerged crippled, disorganized, discouraged, almost bankrupt. Why then should bankrupt Europe be compelled to pay rich America for obligations incurred in defending from

attack civilization itself, including American civilization?

A canvass of financial leaders in Europe in the fall of 1921 points to the unanimous conclusion that general financial recovery is impossible in Europe unless means are found to adjust first the problem of indemnity payments by Germany, which are in the nature of external debts owing to governments or people outside of Germany and second, that of interallied debts—the external ones. These two problems are very closely related; one has a direct bearing upon the other. It is difficult to discuss one without discussing the other. Certainly one problem cannot be solved without solving the other.

A recent communication to the writer from Peter Grossmann, Director General of the German Labor Unions, shows that the present reparations are sapping the vitality of the average German working man and that living conditions amongst the working men are getting worse and worse. Nothing but financial and social collapse seems possible. Mr. Grossmann declares that two years ago a working man could purchase a pair of shoes with the wages he received for one day's work; now it takes the same man the equivalent of four days work to purchase a pair of shoes.

Outside of France, Europe sees clearly that the present indemnity arrangements are impossible of fulfillment but so far no efforts to change them materially have been successful, because the Allies think they would find themselves facing "a burden of external indebtedness as intolerable to them as are the existing terms of reparations to Germany." The Allies seem unwilling to ease the German burden until they are relieved of the weight of the external debts which in turn is paralyzing their spirits and

crushing their ambitions. And so the world drifts on.

Everybody now knows that both the indemnity and external debts can be paid only in goods. Such goods exported by one nation come into competition with those of other nations somewhere. To export goods of an amount large enough in volume or value to square either of these two tremendous obligations, we have already seen may mean, and in most cases does mean, larger losses to the nations receiving them than to the nations making the payments.

SOME EFFECTS OF CANCELLATION

Why not, then, cancel all European war debts, wash our hands of Europe and European troubles and come home to America where we belong.

Professor Moulton in his recent book¹ declares as a result of his studies that "we may as well forget about stabilizing the exchanges unless reparations and allied debts are cancelled. From the standpoint of good business," he continues, "United States should cancel European debts for we will merely be compelling European nations to resort to farther domestic inflation and thus still further disrupt European currencies and exchanges even as German currency and exchange has succumbed under the recent pressure of the Allies for reparation payments."

Professor Moulton thus states concisely and well what will happen if we really force collection. Are there not, however, other serious factors in the situation? Let us understand clearly that, for the first time in American financial history, Europe instead of receiving from two-hundred to three hundred millions a year interest on her investments in the United States now finds that she owes to America in in-

terest items more than seven hundred millions annually. Its a new rôle for America—that of a creditor nation. It is a responsibility she should take seriously. To cancel these, our first European obligations, might act, and probably would act, as a boomerang to further investments by Americans in Europe for many years. Such a situation could be very easily created for if Europe was to cast aside these debts, or if the United States government should cancel them, why should the American government or American capital expect better treatment in future dealings with Europe. No, Europe needs America to keep her credit. It would be a mistake to adopt any policy which might preclude further financial help to Europe on the part of either the American government or its citizens.

CONSTRUCTIVE SUGGESTIONS

There have been, during the past three years, other possible solutions of this problem suggested, somewhat different from either the "pay-up" policy or that of total unconditional cancellation.

Many generous-minded people believe that the United States should use the great debt owing us as a lever to exact from Europe a definite program of action which these people think the governments of Europe should adopt. These people would cancel the debt conditionally, in return for a guaranty that from now on these peoples and governments of Europe will agree to behave as civilized nations should. For instance, the first condition would probably be directed towards a reduction of excessive armaments and a readjustment of reparations. Has not Belgium increased her armament expenses from \$13,110,000 in 1912 to \$107,823,000 in 1921, an increase of more than 800 per

¹*America and the Balance Sheet of Europe.*

cent;² has not France increased her armament expense from \$259,349,000 in 1912 to \$1,316,110,000 in 1920, an increase of nearly 600 per cent; has not Great Britain increased from \$351,044,000 in 1912 to \$1,121,318,000 in 1921, an increase of nearly 350 per cent?

Why should we cancel just obligations to these nations, while such wild, extravagant fear-insurance is being raised from the toil and sweat of the suffering millions and spent to bolster up and make respectable that savage, soul-destroying creature called War, which debauches morals and bankrupts civilizations?

On this point Professor Moulton says:

United States is in a position to exert great influence upon Europe for the accomplishment of ends desired. There should be no necessity for exerting pressure for the purpose of saving Europe from destruction. But so powerful is the grip of Europe on traditions, and so lacerated are the wounds of war, there is little hope that Europe will without some measure of outside compulsion, adopt a coöperative program of reconstruction.

This statement merely shows that people are still in the twilight zone somewhere between barbarism and civilization. They live on ambitions, fears, hates, jealousies and revenge. Otherwise, why is France today supporting with men and money the Turkish army while England backs the Greek army in the same struggle?

THE "LEVER" POLICY

America has been urged by many, both here and abroad, to use this "lever" method for the accomplishment of desirable ends. On first

² From *The Staggering Burden of Armament* published by World's Peace Foundation, April, 1921, Vol. IV, No. 2, Page 219.

thought the "lever" policy appears desirable, but it would embroil us in European politics as well as in their finances, for these things are very closely allied in Europe—much more so than in America. For instance, should we back the French, who have made a treaty with the Turkish nationalist government under M. Kemel Pasha, or the British, who desire Greek supremacy in the Levant? Should we coöperate with France and Serbia in supporting the Pan-Slav movement in the Balkans, or Great Britain and Albania, who fear and oppose such a movement? Should we support the French in backing the Loncheur-Rathenau agreement, or the British, who fear it? Should we favor Great Britain in granting a moratorium of several years to Germany, or France who opposes it? Should we support France in her stand against the German-Russian treaty, or Britain who is inclined to support it?

To appreciate this Anglo-French rivalry, we must understand this: It is a fundamental difference of economic situation which is at the bottom of many of the difficulties. If the differences of Great Britain and France in European policies grow out of the economic situation of each country, would not the American policy be likewise affected by our economic situation? For let us not forget that we in America are by no means unanimous in our viewpoints on foreign affairs. In fact, there as many viewpoints in America as there are in confused Europe today.

Are we ready and prepared to tell Europe what she should do and what she should not do? Have we reached a stage where it would be wise to do it? Could we guide our peace ship through the rocky waters of European finance and diplomacy without disaster?

Why could not France tell us, in

reply to our suggestion that she reduce her army of 800,000, she would do so if we would protect and guarantee her against foreign invasion? Should we grant her such a request in return for an armament reduction or should we not?

Again, let us take the matter of reparations. That problem is one of the most pressing and most urgent menacing the European social order. If the European countries proposed to reduce the German reparations by an amount equal to the allied debt to the United States, what would be our answer? Such a policy has been suggested on numerous occasions in England during the past year. But, after all, will not these European countries be forced to assume a more reasonable and a wiser attitude? Why should we be asked to pay a premium to Europe in the way of cancelling past debts, in order to force her to adopt a policy which it is to her best interest to arrange immediately.

If we put Europe back into school, politically or economically speaking, and force her to do what America, as an inexperienced schoolteacher, desires, I believe we will find the complications many and the task fruitless and hopeless—likely to result in discord and disaster.

Another “lever” suggestion is urged by some who would cancel the debts in return for certain territories and special trade privileges. We have already taken our stand on war gains, territorial or otherwise. We want no special concessions or special spheres of influence to develop in return for our cancelling our obligations, for it can be truthfully said that America’s one big contribution to world affairs has been the policy of the open door and equal rights for all, as against the foreign policy of special privilege, favorable to a nation’s own citizens—a doctrine

filled with bitterness and strife and war for any nation that adopts it.

DANGERS OF CONDITIONAL CANCELLING

Can we not say without fear of successful contradiction that the policy of the conditional cancelling of debts is one which is filled with dangers growing out of rivalries and bitterness of clashing nationalities and ambitions. Furthermore, it is a two-edged sword. Only recently the London *Outlook* brought forward another “lever” policy—in this case the lever would be used against the United States. We quote from this excellent publication:

Germany shall be asked to absorb the whole body of the inter-allied debt. This amounts to sixty-five billion gold marks. Germany will, however, only be called upon to pay these sums if and when any Ally calls upon any other to discharge its indebtedness. It is further suggested that this country and France agree not to call upon any other allied government to pay, except in so far as America calls upon them for debt, or in so far as they themselves fail to recover from Germany other sums due. This means, in effect, that the European inter-allied debt is wiped out, and the total amount credited to Germany, provided Germany meets her reduced obligations, and provided also that America does not insist upon collecting the twelve and one-half billion dollars (fifty billion gold marks) owed her by Europe.

Since the details of the Treasury plan reached New York, we have received private cable advices from high financial quarters there, expressing their cautious and confidential endorsement. As regards America, the scheme is a psychological masterpiece. There is no question of repudiation, nothing to which American politicians searching for votes can take exception: the liabilities of each nation in Europe to America remain as they are; but upon America now will rest the onus of disturbing world trade, and her own, and retarding the recovery of other nations and of herself, if she chooses to demand her

pound of flesh. Her people are too uninformed to understand that it is in their interest to cancel the debts; her bankers and "big business" magnates have now been converted. They bid us have patience for a few years, until the political and economic education of the "backwoods" has proceeded further.

Are we prepared to accept the fruits of such a policy, so subject as you see to changing interpretation? The "lever" policy at first thought seemed reasonable, but would the American people care to assume such a position in the affairs of Europe?

America today stands in the vanguard of civilization, the richest, most generous, most powerful, most industrious, most productive of nations. This one hundred and ten millions of highly organized, widely educated people, blessed by nature in a thousand ways, possessing one-third of all the world's wealth, with an income larger than that of the peoples of all Europe combined, has world-obligations and duties as well as world-rights and privileges.

We have reached a position now in this discussion where we can say that for America to insist on the European debts' being paid would be a grave economic mistake; to cancel the debts altogether unconditionally, while a far superior policy, would very likely act as a serious obstacle against further investments by America in Europe for years to come. We have seen, moreover, the complications likely to arise if we cancel these European war debts conditionally—using them as "levers" to gain certain ends desired by all forward-looking people.

As we study more deeply along this question, it would seem as if we could safely champion any plan which (1) safeguards national promises; (2) which does not weaken international relationships by repudiation or cancellation.

PROPOSAL FOR AMERICAN DEBT COMMISSION

Probably one of the most feasible plans so far suggested, which in a fairly satisfactory way meets the objections raised to the other methods of settling these debts, is that advocated by many distinguished Americans including Mr. Frank Vanderlip. Out of his broad experience and observation, Mr. Vanderlip has come to believe that the debts should be paid at the opportune time, but that all payments, both interest and principal, should be given over to the rehabilitation of the European economic organization. He would have the money so paid left in Europe instead of being brought to America to help swell our present trade balance still more, thereby throwing our economic organization still further out of joint. He would have this fund handled through an American commission, who would be prepared, after a careful and thorough study and survey covering all the economic, social and financial possibilities of Europe, to coöperate in an intelligent and helpful way in the rebuilding of this war-torn and soul-weary civilization.

Mr. Vanderlip says:

I would like to see every dollar that can ever be paid to us by our debtors for years to come devoted to the rehabilitation of European civilization. It is only through the rehabilitation of European civilization that these debts can ever conceivably be paid. It is only through the rehabilitation of European civilization that America can ever conceivably realize in full measure her destiny or can expect a full measure of prosperity for her people.³ * * * * *

The indirect returns (of the expenditure) would be enormous. There could be written a financial prospectus of what might be accomplished by the wise spending of five hundred millions of dollars a

³ *What Next in Europe?* p. 278.

year which would be the most fascinating financial document that was ever prepared.⁴

Such a commission as suggested would necessarily have very wide powers, and be composed of the ablest, wisest and most sympathetic of executives, men of vision and men of action. The biggest men in America should be selected, for they would very shortly become members of the most important commission ever organized to meet the needs of a sick civilization. The survey of this commission would be complete, fundamental and exhaustive, covering such subjects as health, sanitation, transportation, food production, hydro-electric development, education. As an example, if Austria needed hydro-electric development to take the place of the coal she lost, then in the interests of good business recovery for Austria the commission might spend fifty or a hundred or two hundred million there, taking a lien on the property improved, and in addition a general obligation of the Austrian government until the loan was repaid.

This fund, under the direction of the commission, would be small at first, for probably few of the eighteen nations owing us could pay even interest, but as time went on the money would develop the nature of a great revolving fund, aiding the weak spots here and there and transforming despair into hope. This revolving fund would be loaned, for specific projects, only after a survey had proved them economically sound, wise and helpful. As each object was accomplished the money loaned could be returned and reloaned over and over again for other objects just as worthy.

To those who favor a cancellation of the allied debts because Europe is nearly bankrupt, a question will naturally suggest itself here. It is this:

⁴ *What Next in Europe?* p. 285.

"If our European debtors cannot now pay us directly, how will they be able to do it indirectly?" There is a very clear-cut economic distinction between a payment made directly to us in American dollars by these debtor nations and a payment made in such a way as to be left in Europe for her rehabilitation. As we have already seen, if Europe pays us seven hundred millions a year interest on past obligations, it only adds just that much burden to her already overburdened and lop-sided balance sheet, and its weight tends further to increase our money value and prices to our debtors and thus decrease our exports.

But to suggest payment within Europe itself is a vastly different matter. We could be given credits in these several countries, which the American commission could use for expenditures for labor, machinery or other necessary materials. All efforts to aid would have just one object in view—European recovery economically and financially.

In the great Mississippi Valley, from which I come, the most depressed class in that section now is the agrarian class—the farmers. Since they are overloaded with debt and not making expenses, it would be an easy matter to foreclose on their lands and compel them to seek new homes elsewhere. But the wise creditor is coöperating with the farmer, his debtor, and carrying him over in order that the debtor may repay when good prices and good crops return. Our problem is not helped—in fact, it is greatly aggravated—by demanding and forcing payment of interest. Instead, in thousands of cases, the creditor is loaning the debtor-farmer more credit in order to enable the debtor to remain on the farm, trusting that later things will so adjust themselves that the debtor's capacity to pay will sometime return.

If we apply that same idea to present European debts we have a possible suggestion of America's duty and destiny, a hard journey up the mountain of International Good Will. Has there ever before been presented to any people a romance in altruism or a challenge in world idealism on so grand a scale?

Perhaps some will question the wisdom, the temperament, the experience, of America to carry on such a colossal experiment, for experiment it would be. The genius and capacity for organization which has been shown by America during the past eight years leads one to believe that America could do such work with vision, hope, inspiration and success. The American is above all others a man of vast organizing ability. That he could survey in a most fundamental way this whole field from the North Sea to the Mediterranean, from the British Islands to far away Eastern Russia, and at the same time coöperate in the most hearty and sympathetic manner with the nationals of all countries, I do not doubt.

This whole program need not be under American supervision only. The special training, learning and culture of the ablest minds in Europe could be secured in the great survey made imperative by the immensity of the task.

This American debt commission could use such Europeans as they desired, who would fit into this whole arrangement in a helpful and generous way.

Think of what could be done in Russia, now raising on an average of six bushels to the acre, with modern farm machinery and scientific methods. Think of what could be accomplished through establishing agricultural schools all over Europe. Think of the food production stimulus which could be given to each country by sympathetic, intelligent coöperation and help.

FURTHER POSSIBILITIES OF COMMISSION PLAN

Such a plan is one of much merit and should be carefully studied by all thoughtful Americans. There are several suggestions which might be made with reference to the plan which have not so far been advanced. The first relates to interest charges on all debts, both external and internal. Interest charges are now sapping the lifeblood of Europe. A moratorium with eventual cancellation of all interest owing might hearten the people to pay the principal. It is certainly true that Europe cannot pay interest charges, mounting from 750 million to 1 billion dollars a month, and expect to recover. This overhead charge on society is too much and cannot be met. This plan should be adjusted to co-operate in bringing a moratorium on interest, looking perhaps to a cancellation of interest later.

Second, none of this vast fund should be used by the commission to support either directly or indirectly present war activities or "preparation for war" activities. America has made up her mind that the next step forward is to outlaw war, for she knows that civilization is otherwise doomed.

Third, it has been suggested that when the League of Nations really becomes the important factor in European social and economic progress by taking into membership Russia and Germany, this American commission might be taken over as a department of the League, under certain definite conditions. But now a League of Nations which leaves out of its membership two-thirds of the population of Europe, is a league in name only. How can Europe recover when the League of Nations has not officially recognized that greatest and most compelling fact, that the economic unity of Europe is

essential and fundamental to any recovery.

SUMMARY AND CONCLUSION

And now to sum up briefly: We have found out that America is a creditor nation to eighteen nations in Europe to the extent of fourteen billion of dollars, of which eleven billion is owing by the several governments to the government of the United States, and three billion to individuals in America, as distinguished from the government of the United States.

We have found that Europe is recovering very slowly, if at all; that more than three years after the Great War Europe has done practically nothing towards paying either principal or interest on these obligations; that interest items are piling up at the rate of over seven hundred millions a year; that the payment could not be met in gold but only by goods or services; that Europe lost nearly all her "service" credits during the war, so she must pay her debts by goods; that if she pays her goods to square old accounts, she can buy just so much less present and future goods, a condition which would result for America in more unemployment and goods-value losses; that America should, therefore, not require the payment of the European debt to us dollar for dollar, for it would injure us and still further debase the European trade balances and still more depreciate her currencies. On the other hand, we have seen that to cancel the debts Europe owes to us would very likely act as a deterrent to getting America into future financial dealings, a deterrent which might be a source of great embarrassment to Europe for many years. We have seen, also, that to cancel the European debts conditionally might easily force an entirely new departure, of very uncertain nature, in our relation to European

affairs, which might force us into numerous positions of embarrassment between adverse and jealous groups. Finally, we have been forced to the position that we should favor any plan advanced which maintains integritized national promises, and which does not strain future international relationships by repudiation or cancellation.

This, the American commission plan, which would have all payments made and left in Europe and used for the rehabilitation of Europe, attempts to do. Could any opportunity be bigger or grander? Could any nation desire more? Has any nation since the dawn of history, been so favored with power to revive hope and good will and dispel insincerity and cynicism as America today?

I cannot close without saying a word to that American who believes we ought to leave European affairs alone, and let her work out her own problems. True, we can readjust ourselves and after a few years of hardship place a Chinese tariff wall about ourselves so high and so powerful that we can keep out the sorrow and hunger and poverty of Europe—the culture storehouse of the last five hundred years. The United States needs to import only a few necessary articles, coffee, tea and rubber. As a self-contained economic unit we could, I believe, live in comparative comfort and ease. But do we want to do it? We compelled two millions of the finest boys that ever walked in line to go three thousand miles from home to fight, and we spent fifty billions to accomplish our object. It was the first time in American history that American boys fought as Americans in a European war. We fought to make the world a better place in which to live. Can we drop that challenge *now*? Can we turn our back on Europe, when she is in danger of losing her economic life? Are we

going to quit or are we going to translate into action the abstract things called Justice and Good Will? It seems to me we must do the *only* thing to do, and that is to keep the fires of civilization burning. We must not let them die. We cannot play the part of the selfish rich man. Let us accept the call, proud of the fact that it is ours to receive, and as world leaders, rekindle the fires of hope and courage by showing, by our own example, that it is better to cure than to injure, better to love than to hate, better to coöperate

than to fight, better to give than to receive.

It is my firm conviction that we in America can do our greatest service, not by demanding from our European debtors our pound of flesh by asking them to pay us back dollar for dollar in American money; not by cancelling the debt either conditionally or unconditionally, but by letting each nation pay us in European credits at the appropriate time, to be used exclusively in repairing Europe, restoring her energies and renewing her vision.

Inter-Allied Debts and Reparation Payments as International Securities

By FREDERICK C. GOODENOUGH

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ALTHOUGH it is now three and a half years since the Armistice, we are feeling that what has been accomplished since then towards the restoration of Europe falls far short of what might have been done under conditions of closer world-coöperation.

We have still at least three principal questions of supreme importance to Europe and to the whole world which demand a speedy settlement, viz.:

- (1) Sound currency.
- (2) The modification and fixing of the inter-allied debts and reparation payments.
- (3) The method of payment of the reparations.

There is, in the first place, the urgent need for a return to principles of sound currency on the part of those countries which have abandoned them from causes arising out of the War. We know that currency was invented in order to provide a means of exchange of such undoubted and widely recognized value that it could be ac-

cepted anywhere by a seller of goods because he could feel satisfied that at some later date it would be accepted as practically of the same value by any other seller from whom he might wish to purchase. Through this means the field of trade was developed and enlarged.

The same principles apply today, although trade is now of vastly greater complexity, and currency has undergone many changes from its original simple form.

It seems to be clear that, where a currency consists of inconvertible paper money, its value will largely depend upon the rating of the credit of the country concerned, which falls as the volume of paper is increased. So much has been said and written upon the subject of sound currency, and of the evils of a currency which is unsound, that I do not propose to take up your time by what must necessarily amount to a great extent to repetition. I would venture merely to reaffirm